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Correspondent of The National City Bank of New York

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THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE general business situation has given evidence of no fundamental change during the past month. Taking trade and industry as a whole, the summer recession appears to have been no more than normal, despite such retarding influences as the recent floods, the soft coal strike, and reduced activity in the automobile industry. Volume and profits are by no means satisfactory in all lines, but enough good business seems assured to maintain the good record of 1927 up to the end.

Measured by the volume of checks passing through the banks and by industrial consumption of electric power, business would appear to be running ahead of that of a year ago, while measured by factory employment and payrolls and by the railway movement of manufactured products it would appear to be running somewhat behind. Doubtless these divergencies are due to varying emphasis on different lines of trade, and their chief significance would seem to be in indicating the continuance of some unevenness in business, albeit that the average cannot be far from that of last year which was of record volume.

Profits Holding Up

One of the most encouraging developments of the month is the unexpectedly favorable showing of corporation earnings for the second quarter now being made public. General Motors ranks first in aggregate profits and in rate of increase, with net earnings, including profits of subsidiaries not consolidated, for the half year ended June 30, of $129,250,207, an increase over corresponding figures for the first half of 1926 of $27,550,253. For the last quarter the earnings calculated on the same basis were $76,698,799. Although the total production of automobiles in the country was lower in the six months period than in the like period of 1926 the production of the General Motors organization increased. Earnings of the United States Steel Corporation for the last quarter were $26,137,836 after expenses, Federal taxes, interest on bonds of subsidiaries, and depreciation, against $27,648,542 in the corresponding period of 1926. Excepting war years the figures for the last quarter have been exceeded only in 1926 and 1923.

The two premier corporations, however, are not the only ones making a good showing. Out of 82 companies engaged in various lines of production and distribution that have thus far published their figures, 47, or 57.3 per cent, show increases in earnings as compared with the second quarter of last year, and 35, or 42.7 per cent, show decreases. If comparison is made by dollar totals, the combined earnings of these companies in the second quarter of this year aggregate $184,023,000, as compared with $169,865,000 last year. The increase was 8.3 per cent, but if General Motors be eliminated the result would be a decline of 9.2 per cent.

Oil companies, as expected, showed decreases in practically all cases, as compared with last year, due to the price cutting and overproduction in that industry that is familiar to everyone. Steel companies generally showed smaller earnings than last year, but the decline was less than might have been expected in view of the lower level of steel prices. Textile and leather concerns and a large number of companies in miscellaneous lines went ahead. Even the automobile industry, where particularly keen competitive conditions prevail, showed a number of very satisfactory gains, though it is doubtful whether, if statements for all companies including Ford were available, the aggregate totals would measure up to those of last year.

When it is considered that last year was an unusually good year for business, success in maintaining anything like as favorable a showing this year in the face of increasing competition and further decline of prices in many lines indicates a degree of efficiency on the part of business management which inspires confidence in the maintenance of stability.

Trade and Crops Benefited by Weather

Weather conditions have been more favorable to retail trade and to agriculture, and

have imparted a firmer tone to wholesale lines. Department store business, as reported to the different Federal reserve banks, gained in June over that of a year ago, after showing a decrease in May, while combined sales of the two leading mail order houses exceeded those of June, 1926, by 3.3 per cent. Favored by the first real hot spell of the year business was further stimulated in July.

Third Quarter Rail Traffic

That the railroads are anticipating a heavy movement of goods during the next few months is indicated by the estimates of third quarter car requirements for twenty-seven principal commodities recently submitted to the carriers by shippers' advisory committees in different parts of the country. According to these estimates, 9,992,580 freight cars will be needed this year to handle the expected business against 9,576,383 cars in the third quarter of last year, an increase of 4.3 per cent. Of thirteen regional committees reporting, only two, the Southwestern and the Pacific-Northwest boards, estimated a decrease as compared with last year. The following table giving the estimates for the third quarter of this year as compared with the figures for the third quarter of 1926 indicates the consistent character of the gains expected:

Board	1926	1927
New England	164,800	165,225
Middle Atlantic States	1,206,106	1,246,920
Allegheny	1,310,306	1,457,112
Great Lakes	845,767	851,733
Southeastern	1,093,246	1,198,814
Ohio Valley	1,161,273	1,222,430
Middle Western	972,247	1,004,345
Northwestern	443,114	444,643
Trans-Missouri-Kansas	583,444	593,921
Central Western	318,136	355,300
Pacific Coast	448,139	457,255
Southwestern	722,727	710,097
Pacific-Northwest	307,078	284,785

Formulated as these figures are by experts in close touch with the industries which they represent, and devoid of any attempt at propaganda, they have a standing as business forecasters which entitles them to especial attention.

Employment Conditions Good

Employment conditions throughout the country continue generally satisfactory. Jobs are a little harder to get than in the past, which has been an added incentive to efficiency on the part of those holding them, but outside of the union coal regions and the automobile industry at Detroit no widespread unemployment exists.

In a recent statement the United States Department of Labor called attention to the fact that notwithstanding the steady growth of business each year, manufacturing establishments today are as a rule employing fewer workers than in 1923. Following is a table comparing the Department's factory employment index by months, which indicates that the average number of workers employed in reporting factories during the first five months of this year was 2.6 per cent less than in the same period of last year, and about 10 per cent less than in the same period of 1923:

FACTORY EMPLOYMENT
(1923 Average = 100)

	1923	1926	1927	Per cent change 1923 to 1927	Per cent change 1926 to 1927
January	98.0	92.3	89.4		
February	99.6	93.3	91.0		
March	101.8	93.7	91.4		
April	101.8	92.8	90.6		
May	101.8	91.7	89.7		
Avg. 5 mos.	100.6	92.8	90.4	—10.1	—2.6

Corresponding with the reduction in the number of workers, the aggregate payrolls have also been reduced, but the reduction in this case has been much smaller than the reduction in employment, indicating that the wage per man has considerably increased. Following is a table showing the changes in the factory payrolls index:

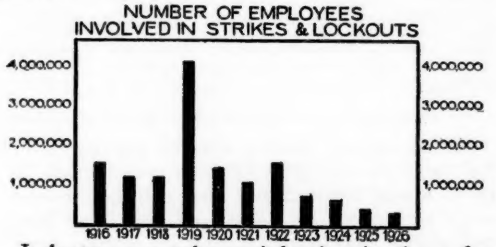
FACTORY PAYROLLS
(1923 Average = 100)

	1923	1926	1927	Per cent change 1923 to 1927	Per cent change 1926 to 1927
January	91.8	93.9	90.9		
February	95.2	97.9	96.4		
March	100.3	99.1	97.7		
April	101.3	97.2	96.6		
May	104.8	95.6	95.6		
Avg. 5 mos.	98.7	96.7	95.4	—3.3	—1.3

This tendency for industry to get along with fewer workers able individually to earn high wages by reason of increased production per worker has frequently been commented upon in this review as one of the outstanding characteristics of the present state of business. Had the tables presented above been carried back to give comparisons with 1919 and 1920 the results would have been still more striking. Increased use of machinery, better organization, and more efficient methods all around have constituted an economic basis for high wages which has made these wages a factor contributing to general prosperity.

Of course, the decrease in the number of workers employed in the reporting factories since 1923 does not mean that these men have been thrown out of work. While some increase in the floating supply of labor may possibly have taken place, the indications are that for the most part these workers have been absorbed in other lines not covered by the reports, such as building, merchandising or the thousand and one other occupations which sustain and minister to the needs and pleasures of the people.

Contrasting with the troubled social conditions in many other parts of the world, our own country presents a picture of industrial peace which is striking. Due to the high wages paid, our present prosperity has been unusually devoid of the labor difficulties which ordinarily accompany periods of high pressure business activity. With the exception of the soft coal strike, the United States has not had a major labor tieup this year, and records of the Department of Labor show that last year, despite the anthracite coal strike, the number of workers involved in strikes and lockouts was the smallest in over ten years. The following diagram, showing these figures each year since 1916 reflects clearly the improved relations that have come to exist between labor and capital during the past few years:



Industry can take satisfaction in these figures, but should not forget that high wages alone do not create prosperity. Only when they are accompanied and supported by increased production do they become the basis for sound business progress.

Activity in Textiles

The cotton spinning industry continues active, and enough orders are on hand to keep most of the mills busy until well into the Fall. Consumption of raw cotton during June amounted to 732,671 bales including linters, compared with 588,920 bales in June last year, while spindle activity averaged 109.2 per cent of single shift capacity compared with 88.4 per cent in June last year.

Despite large production, June shipments, according to the Association of Cotton Textile Merchants of New York, amounted to 96.5 per cent of production, stocks on hand at the close of June were 39.6 per cent below those of June, 1926, and unfilled orders 163.4 per cent higher.

Mills, however, continue to express dissatisfaction with cloth prices which, despite some advance, are still too low as compared with raw cotton. With goods already selling below reproduction costs, the steady rise of cotton is causing considerable anxiety to spinners, besides inducing buyers to hold off for a possible reaction.

Rayon business keeps at capacity levels, and silks show slight improvement after an unsatisfactory half year. Silk consumption since January has been larger than in any previous year, but competition has been so severe that profits have been disappointing.

Woolen business has improved slightly during the past month, with mills buying more freely of raw wool which has been firmer in price both here and abroad. May consumption of wool by mills representing approximately 80 per cent of the industry exceeded that of May a year ago by 22 per cent, and for the first five months of the year the consumption aggregating 234,898,022 pounds grease equivalent was the largest in four years. Notwithstanding this increase, manufacturing operations continue much below capacity and conditions in the industry are still unsatisfactory.

Steel and Allied Industries

The steel industry continues in the grip of summer dullness, with the recessions somewhat more pronounced than took place a year ago. Some improvement, however, has taken place in recent weeks and the opinion is held that the low point has been passed. Building construction is still going forward on a large scale throughout the country, according to the figures published by the F. W. Dodge Corporation; the agricultural implement industry is very busy, and there is a steady stream of small orders for prompt shipment coming to the steel mills from various other sources. Automobile production so far this year has been 12 per cent under that of the corresponding period of last year, but is expected to pick up with the introduction of the new models. The chief handicap the steel industry has had to contend with has been the failure of steel's largest customer—the railroads—to come into the market with larger buying. During the first six months of the year Class 1 railways installed 38,041 new freight cars in service against 53,582 in the corresponding period of last year, and 1,040 new locomotives against 1,117 last year. On the basis of first quarter expenditures, total capital expenditures for these roads for the entire year will approximate $700,000,000 to $750,000,000, against $885,000,000 spent last year. While there is no doubt as to the railroads having the money to spend, if needed, the excellent condition of their plant and rolling stock is enabling them to get along with a minimum of new equipment. Reflection of these conditions appeared in the recent announcement by the Baldwin Locomotive Company that operations had been cut to 10 per cent of capacity and in the report of the American Locomotive Company showing for the first half year earnings equal to $1.48 a share on the common stock compared with $3.15 a share in the 1926 period and dividend requirements at the annual rate of $8 a share.

Non-Ferrous Metals Firmer

The market for non-ferrous metals has shown a firmer tone of late, quotations on copper, lead, and zinc all going to higher levels. Copper advanced ½ cent a pound during the past month to 13 cents, the highest since May. This advance follows a reduction of refined stocks during June from 108,079 short tons to 96,360 tons, the largest decrease in many months and one which brings the refined stock to the lowest point since January. While if blister stocks are included the June figures of total stocks show an increase, the gain is only a small one, indicating that the industry has been successful in exerting a better control over production. Should average domestic and export shipments continue to rule for the balance of the year, it is hoped that the technical position of the industry will be further improved. During the first half of the year, world consumption, according to the American Bureau of Metal Statistics, ran slightly ahead of production. The trouble with the industry in the past, however, has been that its capacity for over-production has been so great that it has been difficult to keep output within bounds once prices have risen to remunerative levels.

Hides and Leather

The situation in the hide and leather industry continues to command attention by reason of the continued sensational advance of hide prices. Whereas a month ago, when packer hides reached 19½ cents a pound it was thought that the advance had about reached its peak, the past few weeks have witnessed a further climb to 23½ cents, the highest since the inflation period of 1920.

After several years of struggling with surplus stocks, the leather industry has so thoroughly liquidated itself that there is now a scarcity of raw and finished supplies, not alone in this country but all over the world. With demand for leather increasing, and no way of immediately increasing the supply of hides, prices have advanced sharply.

Following are figures compiled by the Tanners Council from Government sources showing the drastic reduction in stocks that has taken place since 1923:

(000 omitted)

End of	Raw Hides on Hand	Hides in Process	Finished Stocks	Total raw stocks, process stocks and finished leather in hands of tanners
Jan. 1923	6,384	6,077	7,043	16,400
Jan. 1925	4,751	5,511	4,843	12,533
Jan. 1926	4,507	5,198	4,731	11,824
Dec. 1926	3,880	5,359	3,400	10,182
Feb. 1927	3,606	5,450	3,261	10,249
Apr. 1927	3,161	5,422	3,265	9,966
May, 1927	3,231	5,452	3,073	9,858

Firmness in hide prices is being reflected in the leather market. Tanners are showing more activity, leather prices are firming, and earnings are expected to be considerably better than in the past. With leather prices on a higher basis, the shoe industry is also revising its price lists upward.

The Coal Situation

Although the soft coal strike has now been in progress for four months it is having little visible effect upon industry, and Government officials are quoted as discounting the possibilities of a coal shortage. Due to heavy output during the first quarter, total production during the first half of the year exceeded that of the corresponding period of a year ago when there was no strike by 4,500,000 tons, as indicated by the following table comparing the figures by months:

Month	1927	1926
January	56,882,000	53,662,000
February	52,904,000	46,577,000
March	60,147,000	46,137,000
April	34,671,000	40,079,000
May	35,293,000	39,059,000
June	32,666,000	41,992,000
Total	272,563,000	267,506,000

At the recent weekly rate of mining, which has been about 8,000,000 tons, production has been about normal for the summer months even in non-strike years and has been about twice the maximum output in strike years. Should demand for coal increase it is said that non-union mines could easily expand production by a considerable amount.

That the public in general is not worrying about the strike is clear from the level of coal prices which is now lower than at any previous time this year. Whether or not this complacency is justified will be seen more clearly with the approach of winter, barring some settlement before then. For the present at least it is worth noting that consumption is running ahead of production and reserve stocks which on April 1 were estimated at about 80,000,000 tons are being gradually reduced. A Government survey of stocks on hand July 1 is now under way, the results of which are expected to be made public about the middle of August.

Oil Situation Continues Unfavorable

Production of crude oil continues to reach new high levels, despite efforts to limit drillings of new wells in the Seminole field where the over-production is most acute. For the country as a whole output reached a new peak of 2,573,850 barrels daily average during the week of July 23, while latest figures from the Seminole indicate a new record output of 514,723 barrels on July 26. Renewed efforts are being made by operators in that field to come to some agreement regarding control of production, and a new plan is under consideration the decision on which is being anxiously awaited by all connected with the industry.

Reflecting heavy output, stocks of crude have been increasing, the figures for the end of May showing a rise of approximately 9,000,000 barrels to a new high level of 424,448,000 barrels, with further increases expected to show up in the June figures.

Despite mounting crude stocks, the gasoline situation has improved by reason of reduced cracking operations and increased consumption. Stocks on hand May 31 represented only 49 days' supply, as compared with 58 days' supply on hand at the end of April and 46 days' supply on hand May 31, 1926. Of other refined products, stocks of kerosene and lubricants showed little change, while those of gas oil and fuel oil continued to increase.

The Crop Situation

The small grain crops are nearly made, with yields better than those of last year. The Government's estimate upon winter wheat, based upon prospects July 1, is for 579,000,000 bushels, against 627,000,000 last year and 556,000,000 as the average of the last five years. Spring wheat promises a much larger yield than last year, to-wit: 274,000,000 bushels, against 205,000,000, at which the total of all wheat would be 22,000,000 larger than last year. The condition of Spring wheat, however, improved during July, and the crop is likely to make 300,000,000 bushels. From Minnesota to the Pacific Coast there is scarcely a break in the favorable reports upon the outlook, not only for wheat but for other crops. Following is an extract from a letter we have received from a bank president in the Northwest, and it is well supported by reports from other localities:

"I am happy to report that we have a most wonderful wheat crop. Covering the entire wheat district it is about the largest yield that I have ever seen. The prices are very good, some of it having been contracted for some time and some selling at this time. We have beautiful weather for harvest, and we are anticipating the heaviest liquidation we have ever had in a season and much of it will be liquidation of some dangerous and some unsatisfactory accounts. It surely surprises me to look over the situation and can look to debts being liquidated which a year ago would have been classed as practically worthless. I am not necessarily referring to debts in the bank, although it will affect them as well.

"Sheep men are prospering and at this time the cattle men seem to be getting good prices and prospering. They have a wonderful lot of feed for winter as well as on the ranges."

Railroad officials throughout the Northwest are sanguine of a great year's business ahead of them.

Conditions in the wheat territory of the Southwest are not so good, but the corn crop there is better than last year, and taking all farm products together the returns are likely to be as large as last year. The acreage of Texas in cotton is 11 per cent below that of last year, but the crop is expected to bring more money, and more profit, as it has been made at a reduced cost.

The report upon corn is of about the same tenor as last month. The stand is very uneven, on account of the different dates of planting, and much depends upon how late frost holds off, but the crop in the principal corn states will be short. On the other hand, the southern states in curtailing the acreage for cotton have planted more corn than usual and have a better prospect than the Middle West. What they produce will be for home consumption, but will reduce to that extent the usual demands on the surplus-producing states. The short crop is to be regretted for the effects it will have on the live stock industry, which otherwise is on a good basis. Corn is about 30 cents per bushel above the low price on last year's crop.

Hogs have recovered in the last month a part of the price-loss occasioned by the rise of corn in June. According to advices of the Department of Agriculture no great increase in this country's supply is at present in prospect, but European supplies are larger, and a pronounced increase of hog production is taking place in Argentina.

The markets for cattle and sheep are in good condition and the wool markets all over the world are strong, Australian wool production having been curtailed by a drought which is now in its second year.

The season has been favorable for pasturage and hay, and the dairy industry is doing well, with butter prices about the same as last year. The amount in storage is slightly larger than at this time last year.

The net result of recent developments affecting cotton has been to raise the price to a new record on the crop, the October delivery going over 19 cents per pound, which is well above the ruling quotation at this time last year. The come-back from the low prices of last December is the more remarkable because nothing like a crop failure is in sight now. The Government's report upon acreage shows a reduction from last year of 12.4 per cent, but this year's acreage has been equalled but twice and seldom have growing conditions to August 1 been more favorable than now. In the latter part of July, however, complaints against the weather have multiplied and the boll weevil has become more threatening, with an effect upon prices as stated.

The strength of the market is largely due to the remarkable record of cotton distribution since August 1, 1926. Both exports and domestic consumption have beaten all records. Garside's Cotton Service estimates the world's consumption of American cotton in the past year at 16,100,000 to 16,300,000 bales, against 14,000,000 in the previous year. It calculates the world carry-over this year at 7,150,000 to

7,350,000 bales. A drop of 3,000,000 to 4,000,000 bales in production would bring the carry-over next year down to comparatively small proportions, but it cannot be said that there is any likelihood of an actual scarcity of cotton in the coming year.

Money and Banking

The money market, after displaying some firmness in May and June, turned easier in July. Call loan renewals held at 4 per cent most of the month, but during the final ten days new loans could seldom be made on the Stock Exchange after the opening at better than 3¾ per cent, and in some cases 3½ per cent. On three days prior to the 29th the renewal rate dropped to 3¾ per cent. Not since May and June of last year have rates fallen as low as this.

In the bill market, a combination of seasonably low supply of bills and the appearance of some unusually large orders to be filled for foreign account, resulted in rates being cut twice by ⅛ of one per cent until prime 90-day paper was offered to investors at 3⅜ per cent, the lowest since last Summer.

Stock market time money rates softened late in the month and were quoted at 4⅜ per cent for 90-day loans, compared with 4½ per cent a month ago. Commercial paper continued very dull; offerings were light and rates generally 4¼ per cent for good names, with occasional trades at 4 per cent.

Factors in Easier Money

Various factors have contributed to easier money during the month. During much of the period the volume of funds required by the security markets ruled lower than in June. On July 20 the volume of brokers' loans, and the total of loans secured by stocks and bonds which includes brokers' loans, showed a reduction of $101,000,000 and of $146,000,000 from their respective June peaks, which reductions released funds to seek employment elsewhere with consequent pressure upon rates. Including investment holdings of securities, which likewise decreased, total loans and investments of the reporting member banks on the date mentioned were down $346,000,000 from the peak reached in the middle of June and at the lowest since the end of May.

That these reductions, however, may prove to be only temporary is suggested by a recovery of $82,000,000 in brokers' loans during the week of the 27th to within $20,000,000 of the June peak.

Contributing also to easier conditions is the decreasing amount of currency which banks are being called upon to pay out over their counters. Whether due to the somewhat lower payroll requirements, declining prices, or other causes, the effect of lessened currency requirements shows itself immediately in easier money, for it enables the banks to pay off indebtedness at the Reserve banks, or, if already out of debt, to build up their reserve balances on the basis of which they may make further loans.

So far as commercial use of bank credit is concerned, the figures of the weekly reporting member banks indicate a sustained demand from business sources. Unsecured loans of these banks, which are assumed to give the best reflection of commercial borrowings, are showing some seasonal slack as compared with Spring high points, but are $218,000,000 or 2.6 per cent higher than a year ago at this time.

Banking Position Strong

Bank statements reflect the unquestioned strength of the banking position. Notwithstanding that member bank loans and investments have increased some $831,000,000 over a year ago, the total volume of Federal reserve credit outstanding is $126,000,000 less than a year ago and has changed but little since the early part of the year. At none of the regional Reserve banks are the member banks heavy borrowers, indicating that such expansion of bank credit as has occurred this year has been out of member banks' own resources and not the result of dependence upon the central banks. At the bottom of the expansion of member bank credit are the gold imports of the past year which since June of a year ago have amounted to $147,911,000 net, and the return of currency from circulation already referred to.

Viewing money from all angles the prospects are favorable for continued ample supplies for some time to come. Gold movements, of course, may influence the picture, but just now gold seems more likely to flow to this country than away from it. Fall trade requirements will doubtless bring about a seasonal firming in due course, but unless conditions change materially in the next few months there seems no reason to expect more than this.

The Bond Market

The dullness in security markets usually characterizing the month of July was somewhat aggravated this year by the congested condition which developed as the result of record breaking security emissions during previous months. According to a Dow-Jones compilation, the volume of security offerings for the first six months of 1927 reached nearly 75 per cent of the total for the entire year 1926. During the first six months of this year $5,686,000,000 of new securities were offered, as against $3,492,000,000 in the first half of last year and $6,447,000,000 in the entire year 1926. These totals include domestic and foreign government, state, municipal and corporate issues.

It is almost inevitable that such an unusual outpouring of new securities should have produced a temporary congestion in existing channels of distribution. The difficulty came right at a time, when the volume of new financing and the level of prices were both at their peak. For a time many syndicates held to the belief that a steady distribution would remedy the situation. Later many syndicates were dissolved, the corrective reaction thus being accelerated and the market generally being freed of issues supported at artificial levels.

The reaction has now apparently run its course and bond prices are on a more stable basis. The resumption of buying so much in evidence during latter days of the month promises to gain momentum as investment funds again re-enter the market.

United States Government and Municipal Securities

Government bond prices were unsettled earlier in the month in sympathy with the general market, but the continued ease in both time and call money rates, together with a fair restoration of investment demand, have again sent the market on an upward course. The advance was particularly marked in the long term treasury issues.

Although the downward revision in municipal prices was proportionately as great as price revisions in other groups, the future of the municipal market would yet be uncertain were there indications that new issues were to be pressed for sale during coming weeks in anything like the volume which was maintained during the first six months of the year. It appears, however, that the volume of municipal financing for this year has reached its peak and that new issues for the third quarter at least will show a substantial shrinkage. So far as most dealers can see, there are few loans of any size which the market will be called upon to absorb before October 1st. This substantial breathing spell should bring about a more even balance between demand and supply than has existed for some months.

With the dissolution of the syndicate in New York City bonds, most of the uncertain elements in the municipal situation have been removed. There has been evidence of a slight quickening in retail inquiry, represented principally by the commitments of institutions, savings banks and estates—all experienced investors who are not slow to take advantage of the opportunities afforded by the recent decline. There is some evidence also of increased buying by private investors to whom present yields appeal in contrast with recent yields when municipal prices were at their highest level since 1917. The volume of bonds in dealers' hands is considerably above what it was a year ago but continued ease in money rates, the reduction in volume of new issues, and the piling up of investment funds all promise to relieve this situation.

Foreign Financing

A notable foreign offering appearing during the month was a $30,000,000 issue of the Central Bank for Agriculture of Germany—6 per cent 33-year secured sinking fund bonds offered at 95 and interest to yield about 6.36 per cent. This is the second offering of the Central Bank in American markets, the first a $25,000,000 issue of 7 per cent 25-year bonds appearing here in September, 1925, at 93 and interest to yield 7.63 per cent. The old 7 per cent issue is now quoted currently at around 101-101½, yielding approximately the same as the new 6 per cent bonds. Both issues are active on the New York Stock Exchange and are showing a slightly upward tendency.

Another important new German issue was the $30,000,000 United Steel Works Corporation 20-year 6½ per cent debentures, which were offered at 98½ and accrued interest to yield over 6.62 per cent.

Railroad Bonds

Railroad bonds generally were strong during most of the month with banks and insurance companies heavy buyers of legal issues and speculators operating for a rise in the second grade and convertible groups. Leadership in the railroad list was again resumed by the Erie Railroad Convertible 4s D, which sold at 126, a new record for all time. This movement was in sympathy with advance in the stock into which these bonds are convertible at the rate of $50 a share for the stock. Among the new issues recently offered there was good demand for Chesapeake Corporation 5s and Erie Railroad Refunding and Improvement 5s, both of which made fractional gains. Bonds of the southwest merger rails were fairly active and strong as were also bonds of the northwestern roads.

Germany and Reparations

The reports of Mr. S. Parker Gilbert, Agent General for Reparation Payments, are of general interest not only for the information they give as to the progress of the payments, but for the comprehensive survey of the economic situation in Germany which they always contain. The Dawes Plan is in the third year of operations, and an interim report, covering the nine months' period, September-May, has been issued.

This report contains much data corroborative of the information which has been current as to industrial recovery in Germany. Industry has undergone extensive reorganization, economies have been effected, production has been increased and at the same time unemployment

has been largely reduced. Although foreign trade increased to some extent the main improvement is in domestic business.

As is usually the case, building operations have been a prominent feature of the business revival. The building trades were the first to report full time employment, and the increasing demand for building materials was directly beneficial to many industries. This activity in building has been due in part to a gradual relaxation of government control over rents, and to easier money conditions. A shortage of housing accommodations has existed since the war, but official rent-control had created a situation which offered little inducement to investment in houses for rental, even if money for such investments was available.

The decline of interest rates resulting from the influx of foreign capital had a pronounced effect upon building operations, but the falling off in the volume of foreign loans, in the first quarter of this year, and consequent rise of interest rates, has caused some apprehension that building operations and general conditions may be unfavorably affected. The Berliner Handels-Gesellschaft states that the interest rate upon mortgage loans, which was 7½ per cent at the beginning of the year, is now 8 to 8½ and 9 per cent and that it is difficult to obtain money at these rates. This statement refers especially to building loans in cities, but that rates are high on farm loans is shown by the recent public offering in the United States of $30,000,000 Rentenbank bonds, secured by farm mortgages, due in 1960, on a basis yielding over 6.36 per cent to lenders.

Scarcity of Capital

The Handels-Gesellschaft in its Economic Report dated July 4 says:

There is hardly any doubt that the continued scarcity of funds still governs the problems of German economic life. Owing to the heavy increase in the number of new hands employed and to the greater capacity of production of German industry, the disparity between the available capital and existing labour-employing facilities has become still more pronounced, despite a fair increase in the amount of newly created capital. For reasons of political economy, the control of prospective external loans as to the purpose for which the funds are intended, is, of course, fully justified. Below we are giving a short table showing the amount of new capital raised since the beginning of 1927.

(In million RM.)

	New Capital Issues		Bond Issues	
1927	Number	Amount	Domestic	Foreign
January	34	134.37	196.25	25.95
February	61	114.88	679.7	20.4
March	72	162.15	62.5	51.2
April	54	107.36	51.0	——
May	68	82.35	0.7	56.0
June	74	65.49	2.0	154.6

The still relatively small lending-capacity of the home market is clearly evidenced by these figures. During the last two months, no domestic loans worth speaking of have been issued. New capital issues have also declined heavily.

Savings bank deposits at the end of April had reached a total of 3,854,000,000 reichsmarks, all of which has been accumulated since stabilization. This total, however, is only 20 per cent of the pre-war volume, and in purchasing power, which measures its value as an industrial fund, it counts for still less.

The high rates for long term money and the dependence of industry upon investment funds for support, explain the recent change in the attitude of the German authorities toward foreign loans. Although they have disliked to see the body of foreign indebtedness increased, an industrial country like Germany cannot give employment to its population without a constant supply of new capital for investment.

Wages and Prices

Wages have shown a slight tendency to advance in the past year, but are low in comparison with wages in the United States. The average weekly wage, as compiled by the statistical office of the Government, in twelve important industries in which wages are fixed by collective bargaining, is shown to be slightly under the equivalent of $12 for skilled workmen and $9 for unskilled. It is said however, that in some of the most successful industries these rates are supplemented by other payments. While the upward tendency of wages is associated to some extent with increasing industrial activity, it is said to be more directly related to the rise of rents.

The movement of the general price index in Germany in the last year has been upward, which is contrary to the trend in the United States, but the result has been that prices in the two countries have come nearer to a common level. In Germany the official index numbers rose from 132 in May, 1926, to 137 in May, 1927, while in the United States the Bureau of Labor figures declined from 152 in May, 1926, to 144 in May, 1927. These index numbers simply show the relation in both countries of the wholesale prices of 1926 and 1927 to the wholesale prices of 1913, the latter being represented by 100.

The report states that the price of pig iron has been consistently quoted since last October at 86 reichsmarks (approximately $20.50) per metric ton, which affords an opportunity for comparison with the actual price in this country. The composite price of pig iron given by the Iron Age for the week ended July 19, 1927, is $18.50 per gross ton of 2,240 lbs. avoirdupois which is slightly heavier than the metric ton. It appears therefore that pig iron is cheaper in the United States than in Germany.

Foreign Trade

The adverse balance in foreign trade is the most unsatisfactory feature of the German situation. The revival of domestic trade and a marked increase of imports have not as yet been accompanied by a corresponding increase of exports. It may be too early to draw conclusions, for increased imports of raw materials naturally would precede an increase of manufactured exports, but the situation is viewed in Germany with some anxiety. The Disconto Gesellschaft, of Berlin, in its Bank Letter, says:

> If we consider the figures of our exports of finished articles, whose development is decisive for our industry, they show that especially as far as the export trade of German industry is concerned, foreign trade is still most unsatisfactory. On the one hand, the import of finished articles has increased considerably. For the first four months of the current year, we have a monthly average of 170 million marks as against 110 million for 1926. It is equally unsatisfactory that the proportion of finished articles to total imports is greater than it was in 1913. But the export side is still more important. Here the general trade improvement has not brought about any permanent increase in the figures. This may be partly explained by the fact that in consequence of the brightening of home trade and the increased capacity of the home market, foreign trade has been somewhat neglected. But for the most part the stagnation in the export trade of finished articles is not a consequence of a lack of power to compete on the international market, but of the great obstacles which the commercial policy of many countries, together with the rise of new industrial centres in the world, throw in our way.

For the year ended October 31, 1925, Germany had an import trade balance of 4,509,000,000 reichsmarks, but this being the first year under the new monetary system, and with a rehabilitated credit, large imports were to be expected. In the year ended October 31, 1926, an export balance of 179 millions was shown, the change being due in the main to a falling off of imports. Since September, 1926, every month has shown an excess of imports, the aggregate being over 2,000,000,000 reichsmarks. These are customs figures, which on the authority of the Reich statistical office are said to over-estimate imports by 5 per cent and under-estimate exports by 1½ per cent. Application of these corrections would modify all of the above figures, but the adverse balance since September remains very substantial. The above export figures do not include deliveries in kind, which amount to about one-half the total of reparation payments.

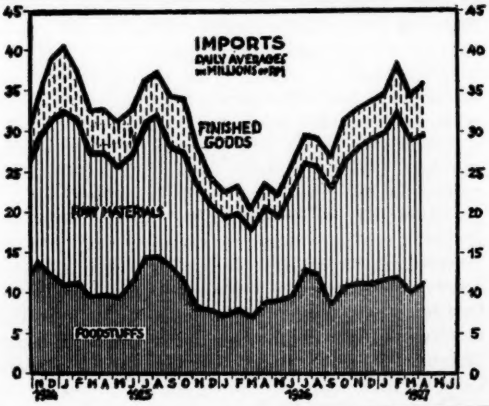
It is inevitable that increasing prosperity in Germany will cause larger imports, but it is necessary that in the long run such increase shall be accompanied by larger exports, not only to cover current purchases, but to provide for reparation payments and other indebtedness.

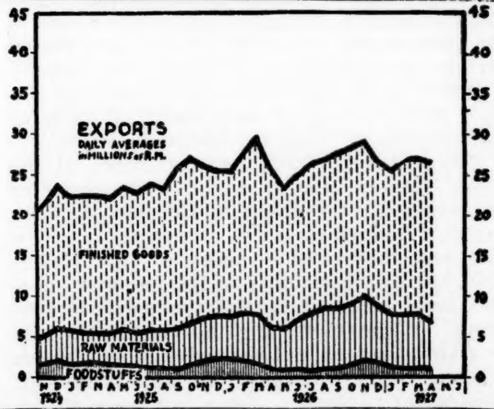
The Agent General's Report states that the balance of payments against Germany in the six months ended May 31, 1927, caused a reduction in the gold and foreign exchange holdings of the Reichsbank of about 1,000,000,000 reichsmarks. This reduction is not important so far as the Reichsbank as an institution is concerned, for it is abundantly able to take care of its own liabilities, including its circulating notes, but is important as showing the effect of an adverse trade balance upon the ability of the bank to supply foreign exchange for the reparation payments. It is agreed that in the long run transfers can be made only by means of a favorable trade balance.

It is of interest in this connection that the Gold Discount Bank of Germany, a subsidiary of the Reichsbank, within the month has negotiated a revolving credit of $30,000,000 with a group of banks in this country.

Composition of Germany's Foreign Trade

A knowledge of the composition of Germany's exports and imports is very important to a correct understanding of the country's position in foreign trade. The charts which appear below, taken from the Agent General's report, illustrate the total of exports and im-





Merchandise Imports and Exports of Germany (Reproduced from report of Agent General of Reparations—figures in millions of reichsmarks)

ports monthly from November, 1924, to April, 1927, classified as "Foodstuffs," "Raw Materials," and "Finished Goods." It will be seen that the great bulk of the imports consists of the first two classes and the great bulk of the exports of the third class. There is slight chance of increasing exports of foodstuffs and raw materials, or of diminishing such imports in the aggregate, nor is it possible to affect much improvement in the net position by reducing imports of finished goods, for they are a small factor now. Gains must be secured almost wholly by increasing exports of finished goods, and despite the fact that as these increase imports of raw materials probably will be larger. Moreover, Germany's ability to export finished goods is dependent not only upon the capacity of her industries, but upon the attitude of other countries toward imports of this class, and upon the character of world competition.

Criticism of the German Budget

The Agent General's report makes a critical analysis of the German Government's budget, justifying such examination on the ground that while the Dawes Plan did not establish any general control of Germany's revenue and expenditure, and gives the Agent General no power of supervision over the budget, the success of the Plan is dependent upon budget stability and all authorities charged with its execution are necessarily concerned about any tendencies which seem likely to threaten stability. The criticism as summed up is that "expenditures generally, including payments to the States and Communes, have risen sharply until expenditures now exceed revenues, and for the first time since the Experts' Plan came into operation borrowing has been necessary to balance the budget of the Reich." Particular attention is given to the system under which the levy and collection of taxes is largely concentrated in the Federal Government, with an obligation to distribute a considerable part of the proceeds to the States and Communes. This system had its origin in the terms under which the States surrendered certain revenues to the Federal Government. It was criticised in the Dawes Committee Report, as involving an undesirable division of authority over revenues and expenditures.

This comment and other comments of the Agent General appear to be well supported by conservative opinion in German business circles. Budget stability, of course, is necessary not only to the success of the Dawes Plan, but to the stability of the monetary system, and to any substantial prosperity in Germany. While there mav be Germans ready to claim that an unbalanced budget affords evidence that Germany is over-taxed for Reparation payments, there is reason to believe that the national leaders do not desire this issue to be raised. Apparently they prefer to have the practicability of the present schedule of payments tested by the ability of the Reparation organization to transfer the collections out of Germany, rather than upon a dispute over the tax levies.

Reparation Payments

The Agent General accompanies his criticism with the statement that "the essential stability of the budget remains unimpaired, and there is no reason to doubt that it can be successfully maintained, if the German Government will take the normal precautions that are necessary in its own interest." He says also that during the period under review, the nine months from September 1, 1926, to May 31, 1927, "Germany has continued loyally and punctually to make the agreed mark payments" to him on reparation account, and that "transfers have gone forward regularly and currently under the auspices of the Transfer Committee, without interfering with the stability of German exchange."

The payments to be made in this, the third annuity year, rise from 1,220,000,000 reichsmarks in the second year to 1,500,000,000 reichsmarks. In the fourth annuity year beginning September 1, 1927, the payments called for by the Plan will be 1,750,000,000 reichsmarks, and in the fifth year they will rise to the "standard" payment of 2,500,000,000 reichsmarks. Thereafter this is to be the annual payment, possibly increased by a supplementary sum from the budget, according to the growth in prosperity of Germany, and determined by a prosperity-index set forth in the Plan.

The report of receipts under the Plan shows that the several sources, to wit, railway bonds, industrial bonds, transportation tax and controlled revenues are all supplying their quotas with a surplus to spare. The transportation tax supplies 290,000,000 reichsmarks this year and will be called upon for no more in the "standard" year. The interest on industrial debentures supplies 250,000,000 reichsmarks a year and is scheduled for 300,000,000 in a "standard" year. The railroads will pay as interest on their bonds issued for this purpose, 550,000,000 reichsmarks this year and in a "standard" year will pay 660,000,000 reichsmarks. The budget supplies 410,000,000 reichsmarks this year and is scheduled for 1,250,000,000 in a "standard" year. The last is the greatest increase planned for, but the controlled revenues pledged to this purpose have been increasing rapidly, and in the last budget year, amounted to about 2,400,000,000 reichsmarks, which is above any estimate named by the experts advising the Dawes Committee.

Therefore, aside from any question as to the effects of such continuing payments upon

the economic progress of the country, the Plan seems to be answering the expectations of its authors, in so far as the collection of funds in Germany is concerned. It is evident however, that the authors were in more uncertainty about how much could be transferred than how much could be raised, and provided carefully that the Plan should not be broken down by attempts to transfer more than the exchange situation at any time would be able to stand. The Report of the Committee upon this point says:

Our purpose has been to set up a machinery which will secure the maximum payment which Germany can make in each year in her own currency. We do not speculate on the amount which can annually be paid in foreign currency or on Germany's capacity to make a total payment.

The Agent General in this report emphasizes the experimental characteristics of the Plan, in the following paragraph:

The Plan of the Experts sought above all to reduce the problem of reparations to a practical and business-like programme under which, instead of unsettling and retarding the reconstruction of Germany and of Europe, reparation payments might become a positive influence for stability and economic recovery. The Plan aimed to re-establish Germany as a going concern and to provide a fair trial, under conditions of security and mutual confidence, of the ability of Germany to pay and of the capacity of the creditor Powers to receive reparations. Experience, and experience alone, would prove what was practicable.

That "trial" is proceeding, and as the payments increase on the graduated scale and approach the "standard" rate at which they are to continue, with perhaps slight and variable additions, interest in the situation naturally increases. The Committee apprehended that there might be difficulty about the transfers, particularly in the early years of operations, and wanted to assure the Plan a fair trial. It encouraged arrangements for payments in commodities or services, and provided that in the event of the foreign situation being temporarily unfavorable to transfers, collections should be allowed to accumulate in the Reichsbank or might be employed in the German money market, until such accumulations had reached the sum of 5,000,000,000 reichsmarks. Thereafter, tax levies for reparations should be reduced to such an extent as to only cover current transfers and maintain the fund at this sum.

In view of these provisions it is hardly in order to say of the Plan, as is being said in some comments, that it is in danger of "breaking down." Whatever the outcome, the Plan will have functioned just as it was designed to do, in determining to what extent reparation payments are practicable and the means by which they may be accomplished.

Transfers Through Loan Credits

We referred last month to the opinion of Dr. Schacht, President of the Reichsbank, upon the question whether foreign credits arising from private loans should be available for reparation transfers. His utterances have shown that he disapproves of such payments upon principle and interprets the Plan as contemplating payments only by means of an actual surplus accruing to Germany in the exchange of goods and services with other countries. This interpretation seems justifiable. Certainly the creditor countries could not require German citizens to borrow abroad for the purpose of facilitating reparation payments, and when it is considered that private borrowing which results in increasing the economic strength of Germany will increase the nation's ability to make reparation payments, it appears that there is no good reason for interfering with such borrowing.

Nevertheless, by common consent the proceeds of private loans have been used to accomplish reparation payments. In no single year has there been a trade balance sufficient to cover the payments, but everybody has wanted the Plan to proceed at least to the point of making a practical demonstration.

At a hearing held on October 21, 1926, by the Sub-committee on Money and Credit of the official Committee of Inquiry into German Economic Conditions, Dr. Schacht plainly stated the reason for the opposition which he was then making to German borrowing abroad. He said:

These stocks of devisen which the foreign credits bring into the country at present accumulate at the Reichsbank to an extent which is far too great for the cover of our note circulation. We do not need this cover. Consequently if I were to be asked by the Agent General for Reparation Payments, "Can you now produce devisen for transfer purposes?" I could only answer, "Yes." It would not be possible for me to say to him "The German currency cannot stand it." The German currency would remain intact even though a great part of the devisen of the Reichsbank were to be withdrawn today. The position therefore is that at the present moment we are making display of a capacity not only to pay but to transfer, which must in the natural course diminish and totally disappear at the moment when the position is reversed and we have the other side of the medal. The capacity to transfer which we at present display, will beyond a doubt have ceased to exist after a certain time. As however we shall then have also to make interest and redemption payments on our foreign borrowings, the position is that we are creating an advantage for a political creditor today at the cost of a private creditor in the future.

The last paragraph of the Agent General's Report, repeats almost in the language of the Agreement itself the fundamental rule for the settlement of all disagreements arising thereunder, as follows:

The experience of these months, in which the German economy has undergone so many changes and on the whole improved, serves to emphasize again the underlying conception of the Plan itself, that what is in the interest of the German economy is also in the interest of the execution of the Plan. The Experts in their original recommendations pointed out that their Plan must find its own guaranty "in the fact that it is to the interest of all the parties to carry it out in good faith." The relations of good faith and mutual understanding that have prevailed since the beginning of the Plan, and the continuing interest of the German Government and the creditor Governments in its regular progress, provide the strongest foundation for its further development.

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